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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

| PERIODIC REPORTING (PROPOSAL SIX) | Docket No. RM2017-10 |
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# REPORT OF THE UNITED STATES POSTAL SERVICE IN RESPONSE TO ORDER NO. 4228 (February 20, 2018)

In Order No. 4228 (November 20, 2017), the Commission approved Proposal Six, but also instructed the Postal Service to report within 90 days on "the feasibility of replacing the long distance classification methodology proposed in this docket with one that explicitly uses the actual mileage traveled by parcels in the TRACS/PTR data sample to calculate long distance percentages." Order No. 4228 at 16-17, 21. The Postal Service hereby responds.

Under the Proposal Six methodology, a parcel is considered to have moved a "long distance" leg of transportation if it travels from one Network Distribution Center (NDC) service area to another. As described on page 5 of the Postal Service's Reply Comments (September 22, 2017), the transportation mode definitions are determined operationally, not spatially. The "long distance" zone-related costs for Parcel Select Ground, DNDC, and Parcel Return Service (PRS) Full Network mail pieces are distributed to the zones based on the percentage of total cubic foot miles that each zone represents. The local, intermediate, and "long distance" non-zone-related costs for Ground, DNDC, and Full Network mail pieces are distributed to the zones based on the percentage of cubic feet, rather than cubic foot miles. Any modification to the "long distance" classification methodology would affect the costs by zone for these three price

categories.

Mechanically, it is feasible to replace the "long distance" classification methodology from Proposal Six with one that explicitly uses actual mileage traveled by parcels from the TRACS/PTR data sample. The Postal Service evaluated this possibility by applying several mileage thresholds in the Commission-approved cost model. The primary issue, however, is the determination of a specific mileage threshold that should be used to define "long distance" travel.

The NDC network consists of twenty-one facilities spread across the continental United States from Springfield, MA in the northeast to Jacksonville, FL in the south, and Los Angeles, CA and Seattle, WA in the west. The distances between city pairs with NDCs vary greatly with the minimum distance being 78 miles between the New Jersey NDC and the Philadelphia NDC and the maximum distance being 3,042 miles between the Seattle NDC and the Jacksonville NDC. Even the distances between neighboring pairs of NDCs vary greatly. For example, the minimum distance from the Seattle NDC to any NDC is 772 miles. The following table lists the 21 NDC facilities and the driving mileage between each of the cities in the NDC network.

| No. | NDC | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | Avg |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1** | Atlanta | | 722 | 473 | 784 | 1,393 | 910 | 710 | 339 | 351 | 804 | 2,176 | 375 | 1,123 | 884 | 834 | 702 | 2,472 | 2,698 | 1,041 | 566 | 654 | 1,001 |
| **2** | Chicago | 722 | | 307 | 922 | 988 | 330 | 282 | 738 | 1,064 | 525 | 2,009 | 539 | 404 | 797 | 778 | 452 | 2,110 | 2,068 | 913 | 295 | 717 | 848 |
| **3** | Cincinnati | 473 | 307 | | 957 | 1,190 | 596 | 240 | 448 | 818 | 601 | 2,182 | 501 | 704 | 625 | 571 | 289 | 2,377 | 2,409 | 790 | 360 | 517 | 848 |
| **4** | Dallas | 784 | 922 | 957 | | 776 | 695 | 1,183 | 1,122 | 990 | 549 | 1,432 | 460 | 937 | 1,550 | 1,500 | 1,238 | 1,729 | 2,133 | 1,708 | 637 | 1,351 | 1,133 |
| **5** | Denver | 1,393 | 988 | 1,190 | 776 | | 659 | 1,254 | 1,587 | 1,737 | 592 | 1,026 | 1,093 | 900 | 1,771 | 1,752 | 1,426 | 1,255 | 1,336 | 1,886 | 832 | 1,680 | 1,257 |
| **6** | Des Moines | 910 | 330 | 596 | 695 | 659 | | 596 | 1,026 | 1,255 | 196 | 1,680 | 635 | 242 | 1,113 | 1,094 | 768 | 1,783 | 1,814 | 1,229 | 349 | 1,033 | 900 |
| **7** | Detroit | 710 | 282 | 240 | 1,183 | 1,254 | 596 | | 596 | 994 | 765 | 2,276 | 739 | 680 | 607 | 588 | 262 | 2,379 | 2,345 | 722 | 528 | 527 | 914 |
| **8** | Greensboro | 339 | 738 | 448 | 1,122 | 1,587 | 1,026 | 596 | | 453 | 997 | 2,465 | 670 | 1,135 | 538 | 470 | 432 | 2,761 | 2,840 | 689 | 760 | 325 | 1,020 |
| **9** | Jacksonville | 351 | 1,064 | 818 | 990 | 1,737 | 1,255 | 994 | 453 | | 1,148 | 2,412 | 688 | 1,468 | 935 | 868 | 844 | 2,789 | 3,042 | 1,087 | 911 | 723 | 1,229 |
| **10** | Kansas City | 804 | 525 | 601 | 549 | 592 | 196 | 765 | 997 | 1,148 | | 1,614 | 462 | 438 | 1,198 | 1,144 | 862 | 1,802 | 1,901 | 1,360 | 242 | 1,090 | 915 |
| **11** | Los Angeles | 2,176 | 2,009 | 2,182 | 1,432 | 1,026 | 1,680 | 2,276 | 2,465 | 2,412 | 1,614 | | 1,798 | 1,920 | 2,791 | 2,729 | 2,446 | 385 | 1,120 | 2,906 | 1,832 | 2,675 | 1,994 |
| **12** | Memphis | 375 | 539 | 501 | 460 | 1,093 | 635 | 739 | 670 | 688 | 462 | 1,798 | | 826 | 1,097 | 1,047 | 784 | 2,098 | 2,362 | 1,254 | 300 | 897 | 931 |
| **13** | Minneapolis | 1,123 | 404 | 704 | 937 | 900 | 242 | 680 | 1,135 | 1,468 | 438 | 1,920 | 826 | | 1,196 | 1,176 | 850 | 2,024 | 1,683 | 1,311 | 540 | 1,115 | 1,034 |
| **14** | New Jersey | 884 | 797 | 625 | 1,550 | 1,771 | 1,113 | 607 | 538 | 935 | 1,198 | 2,791 | 1,097 | 1,196 | | 78 | 381 | 2,894 | 2,860 | 158 | 956 | 219 | 1,132 |
| **15** | Philadelphia | 834 | 778 | 571 | 1,500 | 1,752 | 1,094 | 588 | 470 | 868 | 1,144 | 2,729 | 1,047 | 1,176 | 78 | | 329 | 2,875 | 2,840 | 226 | 903 | 152 | 1,098 |
| **16** | Pittsburgh | 702 | 452 | 289 | 1,238 | 1,426 | 768 | 262 | 432 | 844 | 862 | 2,446 | 784 | 850 | 381 | 329 | | 2,549 | 2,515 | 537 | 622 | 268 | 928 |
| **17** | San Francisco | 2,472 | 2,110 | 2,377 | 1,729 | 1,255 | 1,783 | 2,379 | 2,761 | 2,789 | 1,802 | 385 | 2,098 | 2,024 | 2,894 | 2,875 | 2,549 | | 772 | 3,011 | 2,038 | 2,815 | 2,146 |
| **18** | Seattle | 2,698 | 2,068 | 2,409 | 2,133 | 1,336 | 1,814 | 2,345 | 2,840 | 3,042 | 1,901 | 1,120 | 2,362 | 1,683 | 2,860 | 2,840 | 2,515 | 772 | | 2,975 | 2,137 | 2,779 | 2,231 |
| **19** | Springfield | 1,041 | 913 | 790 | 1,708 | 1,886 | 1,229 | 722 | 689 | 1,087 | 1,360 | 2,906 | 1,254 | 1,311 | 158 | 226 | 537 | 3,011 | 2,975 | | 1,119 | 371 | 1,265 |
| **20** | St Louis | 566 | 295 | 360 | 637 | 832 | 349 | 528 | 760 | 911 | 242 | 1,832 | 300 | 540 | 956 | 903 | 622 | 2,038 | 2,137 | 1,119 | | 849 | 839 |
| **21** | Washington | 654 | 717 | 517 | 1,351 | 1,680 | 1,033 | 527 | 325 | 723 | 1,090 | 2,675 | 897 | 1,115 | 219 | 152 | 268 | 2,815 | 2,779 | 371 | 849 | | 1,038 |
| **Avg** | | 1,001 | 848 | 848 | 1,133 | 1,257 | 900 | 914 | 1,020 | 1,229 | 915 | 1,994 | 931 | 1,034 | 1,132 | 1,098 | 928 | 2,146 | 2,231 | 1,265 | 839 | 1,038 | **1,176** |

The wide variation in mileage between NDC pairs makes the determination of one unique "long distance" threshold challenging. For example, the distance between the Chicago NDC and the Cincinnati NDC is 370 miles. If the "long distance" threshold were established to be 500 miles, the costs for transporting parcels between these two facilities would not be classified as "long distance", despite the fact that the original definition of a "long distance" transportation leg was NDC-to-NDC travel. As described above, the shortest distance between any two NDCs is the 78 miles that separates the New Jersey NDC from the Philadelphia NDC. If the threshold were established at that level, then some costs that are currently classified as intermediate P&DC-to-NDC costs would be reclassified as "long distance" costs.

Setting the mileage threshold for "long distance" transportation legs too high risks failing to appropriately recognize some shipments as distance-related (and therefore warranting the distribution of costs by cubic foot miles across the zones rather than by cubic feet irrespective of zone). Setting the mileage threshold too low, or even at zero, risks failing to recognize some shipments as local or intermediate (and thus having no correlation, on average, with the distance between the origin and destination SCF, which determines the zone). In these latter instances, the associated costs should be distributed by cubic feet irrespective of zone, rather than by cubic foot miles.

As a result of this variation, the Postal Service also investigated the use of geography-specific "long distance" thresholds (i.e., the use of different thresholds for different regions of the country). After careful examination of this approach, it was determined that the TRACS/PTR data are not robust enough to support different "long distance" thresholds for each NDC (or for small subsets of NDCs) because TRACS was

not designed to support regional estimates.

In summary, the Postal Service determined that it is mechanically feasible to use mileage, but impractical due to the disparate distances between NDC service areas. The Postal Service concluded that in order for a mileage-based methodology to work, it would be necessary to use different mileage thresholds, based on geography, for each NDC (or small subsets of NDCs). Unfortunately, the TRACS/PTR data are not robust enough to support this approach. Consequently, the Postal Service continues to support the "long distance" classification methodology presented in Proposal Six and approved in Order No. 4228.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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